SaskTel

Financial Statements of

SECURTEK MONITORING SOLUTIONS INC.

December 31, 2004

105-04384/

President's Message:

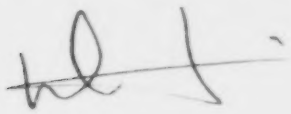
SecurTek Monitoring Solutions Inc. (SecurTek) is an incorporated wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (SaskTel). SecurTek grew out of SaskTel's call centre and process expertise and was formally launched as a service available to Saskatchewan customers in May 1999. SecurTek provides security and emergency alarm monitoring and notification services to serve almost 60,000 residential and commercial customers across Western Canada and selectively in Ontario. Of these, approximately 47,500 are under direct contract with SecurTek.

SecurTek aligns with small businesses that provide the customer contact, sales, customer user training and installation of alarm systems for the customer. These small businesses also provide ongoing customer service, including repairs to damaged equipment, installing additional equipment as required, and assisting the customer with using their alarm system.

SecurTek is headquartered in Yorkton, Saskatchewan. Ending 2004, we employed 98 people in Yorkton and paid more than $2.5 million in annual salaries and wages to employees at the Yorkton facility. In addition, Saskatchewan-wide employment by SecurTek's 13 Saskatchewan-based small business partners has increased as a result of this successful partnership providing further economic benefits to the province.

Revenues for 2004 exceeded $14 million with over two thirds of revenues being generated outside the province. Earnings before interest, taxes, depreciation, and amortization (EBITDA) now represents 38 percent of total revenues.

I would like to thank our dedicated employees and management team, the board of directors, SaskTel, and our authorized dealers for their efforts through the year.



Doug Irwin, President and CEO,
SecurTek Monitoring Solutions

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Chartered Accountants
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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of SecurTek Monitoring Solutions Inc. as at December 31, 2004 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 10, 2005

KPMG LLP, a Canadian limited liability partnership, is the Canadian member firm of KPMG International, a Swiss cooperative.

Consolidated Statement of Operations

For the year ended December 31, (Thousands of dollars)	2004	2003 Restated (Note 3)
Operating revenues	**$14,169**	$13,467
Operating expenses		
Operating expenses	**8,993**	8,383
Depreciation and amortization	**4,679**	4,192
	13,672	12,575
Income from operations	**497**	892
Interest expense	**421**	606
Net income	**$76**	$286

See accompanying notes

Consolidated Statement of Deficit

For the year ended December 31, (Thousands of dollars)	2004	2003
Deficit, beginning of year	**$(3,827)**	$(4,113)
Net income	**76**	286
Deficit, end of year	**($3,751)**	$(3,827)

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2004	2003 Restated (Note 3)
Assets		
Current assets		
Cash	$2,498	$1,159
Accounts receivable	1,314	1,618
Current portion of financing leases receivable (Note 4)	967	951
Prepaid expenses	101	96
	4,880	3,824
Property, plant and equipment (Note 5)	1,240	1,518
Customer accounts (Note 6)	29,386	29,919
Long term portion of financing leases receivable (Note 4)	414	429
Deferred development costs (Note 7)	69	200
	$35,989	$35,890
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities	$798	$962
Deferred revenue	1,297	1,288
	2,095	2,250
Long-term debt (Note 8)	19,506	19,334
	21,601	21,584
Shareholder's equity		
Share capital and contributed surplus (Note 9)	18,139	18,133
Deficit	(3,751)	(3,827)
	14,388	14,306
	$35,989	$35,890

See accompanying notes

On behalf of the Board

Robert Watson

Randy Stephanson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2004	2003 Restated (Note 3)
Cash provided by (used in):		
Operating activities		
Net income	**$76**	$286
Items not affecting cash (Note 10)	**5,101**	4,798
Net change in non-cash working capital items (Note 11)	**181**	2,316
	5,358	7,400
Financing activities		
Repayment of obligations under capital leases	**-**	(14)
Repayment of long-term debt (Note 8)	**(250)**	(120)
Contributed surplus	**6**	450
	(244)	316
Investing activities		
Property, plant and equipment expenditures	**(297)**	(404)
Customer accounts	**(3,440)**	(6,756)
Investment in financing leases receivable	**(989)**	(877)
Payments received on financing leases receivable	**951**	884
	(3,775)	(7,153)
Increase in cash	**1,339**	563
Cash, beginning of year	**1,159**	596
Cash, end of year	**$2,498**	$1,159

See Accompanying Notes

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See Accompanying Notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

SecurTek Monitoring Solutions Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan and is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) providing real time monitoring solutions in select markets in Canada.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, SecurTek Partnership No. 8. All significant intercompany transactions and balances have been eliminated.

Revenue recognition

Revenues from the monitoring of alarm systems are recognized when services are provided. Installation revenue related to equipment leased to customers under direct financing leases is recorded as unearned finance income and amortized over the leased term.

Property, plant and equipment

Property, plant and equipment is recorded at cost, including materials, services and direct labour. Depreciation and amortization is computed on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Plant and equipment	4 to 5 years
Office furniture, equipment and leaseholds	4 to 5 years

Customer accounts

Customer accounts acquired individually, with a group of other assets, or through the Corporation's authorized dealers are recorded at cost. Customer accounts are amortized over 10 years using the straight line method. The Corporation annually reviews the amortization method and useful lives of customer accounts.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies (continued)

Deferred development costs

Business development costs that were incurred during the pre-operating phase are deferred and amortized over five years.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates include the recoverability of customer accounts and the underlying determinations of average customer account life. Significant changes in the assumptions could materially impact the results reported in future periods.

Recent changes to accounting standards and policies

Impairment of long-lived assets

Effective January 1, 2004 the Corporation adopted the recommendations in section 3063 of the CICA Handbook, *Impairment of Long-Lived Assets*. Long-lived assets, including property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value. Prior to January 1, 2004, the amount of the loss was determined by deducting the asset's net recoverable (based on future undiscounted net cash flows expected to be generated by the asset) from its carrying value.

Adopting this section has not had a material effect on the Corporation's consolidated financial statements because no impairment of long-lived assets existed at December 31, 2004.

Notes to Consolidated Financial Statements

Note 3 – Prior period adjustment

During the year, the Corporation corrected the method of accounting for customer premise equipment. In accordance with the terms of the customer contract, payments are made by the customer over a three year period after which time ownership transfers from the Corporation to the customer. In previous years, this equipment was recorded as property, plant and equipment. It is now recorded as financing leases receivable.

The correction has been adopted retroactively and had no impact on previously reported net income or retained earnings. The effect of the correction on the financial statements as at December 31, 2003 is outlined below as increase (decrease):

(Thousands of dollars)	2003
Consolidated Statement of Financial Position	
Property, plant and equipment	$(1,380)
Current portion financing leases receivable	951
Long term portion financing leases receivable	429
Consolidated Statement of Operations	
Operating revenues	(884)
Depreciation and amortization	884
Consolidated Statement of Cash Flows	
Investing activities, property, plant and equipment expenditures	877
Investing activities, investment in financing leases receivable	(877)
Investing activities, payments received on financing leases receivable	884
Operating activities, items not affecting cash	(884)

Note 4 – Financing leases receivable

Customer financing on leases is provided over a three year period after which time the ownership transfers from the Corporation to the customer.

	2004	2003 Restated (Thousands of dollars)
Financing leases receivable	**$1,418**	$1,380
Less unearned revenue	**37**	-
	1,381	1,380
Less current portion of leases receivable	**967**	951
	$414	$429

Notes to Consolidated Financial Statements

Note 5 – Property, plant and equipment

(Thousands of dollars)	Cost	Accumulated depreciation and amortization	Net book value 2004	Net book value 2003 Restated (Note 3)
Plant and equipment	$2,923	$1,712	$1,211	$1,462
Office furniture, equipment and leaseholds	506	477	29	56
	$3,429	$2,189	$1,240	$1,518

Depreciation and amortization for the year totaled $574,879 (2003 - $575,974).

Note 6 – Customer accounts

	Cost	Accumulated depreciation and amortization	Net book value 2004	Net book value 2003 (Thousands of dollars)
Customer accounts	$41,677	$12,291	$29,386	$29,919

Amortization of this definite life intangible asset during the year totaled $3,972,927 (2003 - $3,443,265).

Note 7 – Deferred development costs

	Cost	Accumulated depreciation and amortization	Net book value 2004	Net book value 2003 (Thousands of dollars)
Deferred development costs	$865	$796	$69	$200

Amortization during the year totaled $131,283 (2003 – $172,996).

Notes to Consolidated Financial Statements

Note 8 – Long-term debt

Amounts are due to Holdco and bear interest at the Province of Saskatchewan ninety-day borrowing rate with no fixed repayment terms. The average interest rate for the year was 2.26% (2003 – 2.90%).

Note 9 – Share capital and contributed surplus

	2004	2003
		(Thousands of dollars)
Share capital		
Authorized - unlimited number of class A common shares		
Issued – 6,150,000 shares	**$6,150**	$6,150
Contributed surplus	**11,989**	11,983
	$18,139	$18,133

Note 10 – Items not affecting cash

(Thousands of dollars)	2004	2003 Restated (Note 3)
Interest accrued on long-term debt	**$422**	$606
Depreciation and amortization	**4,679**	4,192
	$5,101	$4,798

Note 11 – Net change in non-cash working capital items

	2004	2003
		(Thousands of dollars)
Accounts receivable	**$304**	$1,845
Prepaid expenses	**(5)**	49
Accounts payable and accrued liabilities	**(164)**	228
Deferred and unearned revenue	**46**	194
	$181	$2,316

Notes to Consolidated Financial Statements

Note 12 – Financial instruments

Fair value

The carrying amounts of cash, accounts receivable, due from Saskatchewan Telecommunications, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

The carrying value of long term debt approximates its fair value. Fair value is determined as the amount at which long term debt could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities.

Credit risk

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk.

Note 13 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2004	2003
	(Thousands of dollars)	
Operating revenues	**$62**	$49
Operating expenses	**2,176**	1,637
Accounts payable	**104**	67
Accounts receivable	**577**	452

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Notes to Consolidated Financial Statements

Note 14 – Commitments and contingencies

The future minimum lease payments under the operating leases of the Corporation in each of the next five years are as follows:

	(Thousands of dollars)
2005	$248
2006	243
2007	236
2008	-
2009	-

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2004 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Note 15 – Comparative figures

Certain of the 2003 figures have been reclassified to conform to the current year's presentation.